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JUNE 1986 QUARTERLY REPORT

Surveys of Consumer Attitudes

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Second Quarter Survey
April-June 1986

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BUYING ATTITUDES SET NEW RECORDS—YET AGAIN

	Page
Highlights	2
Favorable Buying Attitudes Set New Records . . . *Homes* *Vehicles* *Household Durables*	3
Personal Finances Remain Favorable	4
Slow Economic Growth Viewed Favorably	5
Summary Outlook	6

ATTACHMENTS:

APRIL-JUNE 1986 TABLES AND CHARTS

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HIGHLIGHTS

- In the second quarter 1986 survey, the Index of Consumer Sentiment was 96.8, up from 95.5 in the first quarter and 91.1 at the close of 1985. During the past thirteen quarters the Index has remained in the relatively narrow range of 91.1 to 99.5, the longest period of such high levels since the mid 1960s.

- Among families with incomes of $30,000 or more, the Index of Consumer Sentiment stood at 105.9 in the second quarter 1986 survey, just below the 106.8 recorded in the first quarter. Since the cyclical peak was recorded in the first quarter of 1984, the loss in confidence has been somewhat greater among high income families (from 115.9 to 105.9) than among all families (from 99.5 to 96.8).

- Buying conditions for homes, vehicles, and major household durables were viewed more favorably in the second quarter 1986 survey than at any other time in the history of these surveys. These very favorable perceptions were due to declines in interest rates as well as the continued availability of price discounts.

- Favorable attitudes toward buying conditions for homes were held by 85 percent of all families in the second quarter 1986 survey, the highest proportion ever recorded. Three-in-four consumers referred to declines in mortgage interest rates when asked to explain their views.

- Buying conditions for vehicles were reported by 75 percent of all families in the second quarter 1986 survey, the highest proportion recorded in more than thirty years. Lower interest rates offered by vehicle manufacturers were cited by a record 56 percent of all families in support of these favorable views. In addition, consumers held very favorable perceptions of market prices for new vehicles.

- The annual rate of inflation expected in the second quarter 1986 survey was just 3.6%, the lowest level recorded in more than a decade. The national unemployment rate was expected to remain largely unchanged during the year ahead in the second quarter 1986 survey.

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- The second quarter 1986 survey indicates the continuation of the longest period of consumer optimism since the mid 1960s. For more than three years consumer sentiment has remained at very favorable levels due to sustained declines in inflation and interest rates. Attitudes toward buying conditions reached new record levels, as consumers expected the availability of discounts on prices and interest rates to remain widespread. In this buyer's market, consumers expect sellers to react to sluggish sales with even more aggressive discounting.

- Consumers expected the growth in the domestic economy to remain slow during the year ahead, resulting in no further declines in the national unemployment rate. In addition, only small improvements in their own financial situation were expected during the year ahead. Importantly, however, few consumers expected reversals in either their personal financial situation or in the economy as a whole. Following the economic turbulence of the 1970s and early 1980s, the expectation of slow growth has meant the continuation of good times.

Favorable Buying Attitudes Set New Records

Attitudes toward buying conditions for homes, vehicles, and large household durables reached new all-time peak favorable levels in the second quarter 1986 survey due to declines in interest rates and the continued availability of price discounts.

Homes. Favorable attitudes toward buying conditions for homes were held by more families than ever before in the history of these surveys. In the second quarter 1986 survey, 85 percent of all families thought that home buying conditions were favorable, up from the prior record of 76 percent recorded just one quarter earlier, and the 64 percent recorded one year earlier. Only 12 percent of all families reported unfavorable home buying conditions in the second quarter, down from 21 percent one quarter earlier, and 32 percent one year earlier.

The primary factor behind these very favorable attitudes has been reduced mortgage interest rates. In the second quarter 1986 survey, 77 percent of all families referred to the availability of reduced interest rates when asked to explain their views, up from 63 percent one quarter earlier, and 40 percent one year earlier (see Table A.) Just 5 percent of all families complained about high mortgage interest rates in the most recent survey. This domination of home buying attitudes by low mortgage rates mirrors the situation of five years earlier, when in the first quarter of 1981, just 1 percent of all families mentioned low rates, and 75 percent complained about high mortgage rates.

In addition to reduced mortgage rates, consumers hold very favorable perceptions of market prices for homes. In the second quarter 1986 survey, 21 percent referred to the availability lower home prices, while just 6 percent complained about high prices. This was the most favorable balance of opinion recorded since the 1960s.

Vehicles. Favorable attitudes toward car buying conditions were held by 75 percent of all families in the second quarter 1986 survey, the highest proportion ever recorded. This was slightly above the prior records of 72 percent recorded one quarter earlier, and 67 percent recorded one year earlier. A record 56 percent of all families in the second quarter 1986 survey

reported the availability of reduced interest rates offered by vehicle manufacturers, twice the 26 percent recorded one year earlier (Table A). Just 3 percent of all families complained about high interest rates on vehicle loans in the second quarter 1986 survey.

The availability of price discounts on vehicles were mentioned by 24 percent of all families in the second quarter 1986 survey, slightly below the 26 percent recorded one year earlier; complaints about high prices, however, declined during the past year to 12 from 19 percent, yielding a more positive balance of opinion than anytime since the 1960s.

Durables. Buying conditions for large household durables were viewed favorably by 77 percent of all families in the second quarter 1986 survey, unchanged from the first quarter reading, and the highest level ever recorded. The availability of discounted prices on household durables was mentioned by 34 percent of all families in the second quarter 1986 survey, down from 39 percent one quarter earlier, and 37 percent one year earlier. This small decline was offset, however, as complaints about high prices also declined during the past year to 7 from 10 percent. References to the availability of reduced interest rates rose to a record 29 percent in the second quarter of 1986, from 19 percent one quarter earlier, and 10 percent one year earlier.

Personal Finances Remain Favorable

Consumers' evaluations of their personal financial situation remained favorable in the second quarter 1986 survey. Among all families, 45 percent reported that their financial situation had improved during the past year, just above the 44 percent recorded one quarter earlier, and the 41 percent recorded one year earlier. Among families with incomes of $30,000 or more, 56 percent reported improvement during the past year, just below the 58 percent recorded both one quarter and one year earlier. The proportion of all families that reported increases in their family income was 34 percent in the second quarter 1986 survey, just ahead of the 32 percent recorded one year earlier; among high income families, income increases were reported less frequently in the second quarter 1986 survey than one year earlier—43, down from 51 percent. Importantly, few consumers complained about the erosion of living standards due to inflation, just 11 percent in

the second quarter 1986 survey, unchanged from the first quarter reading, and the lowest level recorded in more than two decades.

An improved personal financial situation during the year ahead was expected by 39 percent of all families in the second quarter 1986 survey, up from 36 percent recorded both one quarter and one year earlier. Just 11 percent of all families expected their financial situation to worsen in the second quarter 1986 survey, unchanged from the year earlier reading.

Slow Economic Growth Viewed Favorably

The proportion of consumers that had heard news about favorable changes in business conditions rose to 46 percent in the second quarter 1986 survey, from 31 percent at year end 1985. Most of the increase in favorable news reports involved declines in prices and interest rates. Overall, 58 percent of families in the second quarter 1986 survey thought that business conditions in the country as a whole had improved during the past year, up from the recent low of 49 percent at the close of 1985. Further improvement in the economy during the year ahead was expected by about half as many consumers as reported improvement during the past year. In the second quarter 1986 survey, 27 percent of all families expected the economy to improve during the year ahead, between the 26 percent recorded one quarter earlier and the 28 percent recorded one year earlier. However, only 14 percent of all families in the second quarter of 1986 expected worsening economic conditions during the year ahead, just below the 15 percent recorded one quarter and one year earlier. For the fourth consecutive quarter, the majority of families expected the performance of the national economy to remain unchanged during the year ahead—57 percent in the second quarter 1986 survey.

The outlook for little change in the national economy has meant an expected continuation of good times financially in the country as a whole. In the second quarter 1986 survey, 61 percent expected good times financially in the economy during the year ahead, up from the recent low of 53 percent at the end of 1985. Prospects for the economy over the longer term were not as optimistic, but still remained at relatively favorable levels. In the second quarter 1986 survey, 38

percent expected good times financially during the next five years, unchanged from six months earlier, and the lowest reading since 1983. A slightly larger proportion of families expected bad times financially at some point during the next five years—42 percent, just above the 41 percent recorded one year earlier.

The annual rate of inflation expected in the second quarter 1986 survey was 3.6%, down from 4.9% one year earlier, and the lowest level recorded in more than a decade. Expectations concerning the national unemployment rate have remained largely unchanged during the past two years. Among all families in the second quarter 1986 survey, 53 percent expected the rate of unemployment to remain unchanged during the year ahead. During the past two years, this figure has remained in the narrow range of 50 to 54 percent. Confidence in government economic policies to control inflation and unemployment remain at very high levels in the most recent survey. Among all families, 31 percent favorably rated government economic policies, up from 27 percent in the first quarter, and 29 percent one year earlier.

Summary Outlook

The second quarter 1986 survey indicates the continuation of the longest period of consumer optimism since the mid 1960s. For more than three years consumer sentiment has remained at very favorable levels due to sustained declines in inflation and interest rates. Attitudes toward buying conditions reached new record levels, as consumers expected the availability of discounts on prices and interest rates to remain widespread. In this buyer's market, consumers expect sellers to react to sluggish sales with even more aggressive discounting.

Consumers expected the growth in the domestic economy to remain slow during the year ahead, resulting in no further declines in the national unemployment rate. In addition, only small improvements in their own financial situation were expected during the year ahead. Importantly, however, few consumers expected reversals in either their personal financial situation or in the economy as a whole. Following the economic turbulence of the 1970s and early 1980s, the expectation of slow growth has meant the continuation of good times.

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The second quarter 1986 survey included 1971 completed interviews, conducted between April 1 and June 30, 1986.

TABLE A

REFERENCES TO INTEREST RATES IN SUPPORT OF FAVORABLE BUYING CONDITIONS

Survey Date		Durables		Houses[a]		Vehicles	
		Low Rates	BIA[b] Rates	Low Rates	BIA Rates	Low Rates	BIA Rates
Jan-Mar	1981	1%	1%	1%	4%	2%	1%
Apr-Jun	1981	*	2	3	4	2	1
Jul-Sep	1981	1	1	3	4	3	1
Oct-Dec	1981	1	1	2	2	4	*
Jan-Mar	1982	1	1	4	3	3	1
Apr-Jun	1982	1	1	4	2	8	1
Jul-Sep	1982	2	1	7	3	6	1
Oct-Dec	1982	5	1	25	5	18	1
Jan-Mar	1983	7	1	35	5	31	1
Apr-Jun	1983	12	2	48	9	38	2
Jul-Sep	1983	11	2	36	11	30	3
Oct-Dec	1983	6	1	29	10	18	2
Jan-Mar	1984	8	2	36	11	19	3
Apr-Jun	1984	7	5	25	20	14	6
Jul-Sep	1984	6	3	22	14	13	6
Oct-Dec	1984	8	3	30	9	12	3
Jan-Mar	1985	9	2	41	8	22	2
Apr-Jun	1985	10	2	40	9	26	3
Jul-Sep	1985	14	1	52	5	38	1
Oct-Dec	1985	12	1	47	7	38	2
Jan-Mar	1986	19	1	63	4	51	2
Apr-Jun	1986	29	1	77	5	56	2

*Less than 0.5 percent.

[a]Also includes homes,home repairs and real estate.

[b]The proportions given above provide greater detail than is reported in the quarterly tables (see Tables 27, 29 and 31). The figures above divide the total proportion of respondents that made favorable references to credit conditions into those respondents that referred to the current availability of *low interest rates*, and those that referred to *borrowing-in-advance* (BIA) of rising interest rates.